

SAA and Prasa both facing another bumpy ride this year

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State-owned transport companies South African Airways (SAA) and the Passenger Rail Agency of SA (Prasa) have had a turbulent past year, with both mired in scandal and boardroom wrangles that spilled into the public domain.



The year ahead could even be bumpier, as both have crucial outstanding issues that must be resolved. Prasa is conducting a multitude of internal investigations to clean up house and its executives have an outstanding appearance before Parliament's standing committee on public accounts. SAA is yet to table its annual report as it is awaiting a Treasury guarantee for the airline's going concern status and has an interim board. SAA has had seven CEOs in the past three years.

The infighting at both entities saw back-peddalling on crucial multibillion-rand contracts, which magnified a lack of separation of powers between the executives and the boards, raising pertinent governance issues. These are some of the similarities between SAA and Prasa, which both serve as microcosms of the governance debacles plaguing most of the country's strategic state-owned entities.

Prasa is optimistic that it will put its "house in order" this year and make a credible showing before parliamentarians after its executives were given their marching orders last year for an inadequate presentation on the parastatal's messy internal affairs. At Prasa, the auditor-general has been roped in by Transport Minister Dipuo Peters to conduct a forensic investigation, while an internal skills audit is ongoing. Poor internal checks and balances, uncovered and detailed in Public Protector Thuli Madonsela's report, among other embarrassing blunders, prompted the move.

SAA is facing a race against time to receive the government guarantee to make it a going concern and allow it to table its 2014-15 financial results. Also, the Treasury is yet to replace SAA's interim board of three members with a permanent board.

Both entities are also a long way off profitability. An investigation by auditors at SAA found that the airliner had made a R648m loss in the first six months of the current financial year.

Controversial plans raise eyebrows

Prasa reported a loss of R1.18m for the year ended-March 2015. The passenger rail operator also faces the huge task of rolling out a R137bn modernisation programme that has been dogged by controversy, as new trains for its urban rail service, Metrorail, arrive.

Prasa board chairman Popo Molefe and acting CEO Nathi Khena angered parliamentary committee members when they failed to shoulder any blame for major slip-ups at the rail agency. Molefe and Khena also failed to provide details of Prasa contracts under investigation.

Similarly, MPs were not impressed during an SAA briefing to the finance committee months before, when former acting CEO Thuli Mpshe and her executives could not account for an R85m catering tender awarded to a German company. SAA has a catering subsidiary and the state's procurement policy prioritises localisation and supplier development.

Former finance minister Nhlanhla Nene also raised temperatures in Parliament when he was accused by opposition MPs of being "henpecked" by SAA board chairwoman Dudu Myeni. MPs said Nene was "powerless to act against this one-woman wrecking ball" and he was urged to "stop dithering". SAA has been burdened by power struggles between Myeni and the airline's executive team.

The conflict grounded Nene's career as finance minister and saw several executives' tenures end prematurely. CEO Monwabisi Kalawe resigned and settled after his rivalry with Myeni went as far as the Labour Court. Nico Bezuidenhout was appointed acting CEO, a role he had filled before. In less than a year, the airline dumped Bezuidenhout, as well as his successor and head of human resources, Mpshe.

Prasa's modernisation plan

At Prasa, conflict between Molefe, who was appointed as part of a new board in 2014, and Lucky Montana precipitated the CEO's demise at the agency. SAA and Prasa are both operating under acting CEOs. The entities' non-executive chairpersons, who have interfered in major contracts, appear more prominent than the executives.

In a surprise move, Prasa filed papers in the High Court in Johannesburg to have set aside a R3.5bn contract that escalated to R4.8bn due to inadequate hedging. The contract is for 70 locomotives, of which Prasa has already received 13, procured from Spanish manufacturer Vossloh España through domestic empowerment partner Swifambo Rail Leasing.

This came after Prasa defended itself vehemently against reports that stated the locomotives were not suitable for domestic rail infrastructure and would damage the country's overhead rail network lines. In an affidavit filed to the court, Molefe alleged fraud, corruption and gross irregularities as the reasons for wanting the contract set aside.

A R2.4bn contract for the modernisation of Prasa's priority depot in Braamfontein was the point of contention in the Molefe-Montana fallout. Montana was accused of improperly awarding the tender for the depot's modernisation and the board moved to reverse it. Prasa now says the tender has been issued and it is awaiting bids, with expectations that the tender process will be concluded by the end of the year.

SAA-Airbus deal

At SAA, sparks flew when Myeni tried single-handedly to renegotiate a deal SAA had with Airbus and that would have saved the airline more than R1.6bn in pre-delivery payments on aircraft and R1.6bn on its bottom line. SAA had negotiated with Airbus to lease five new A330 aircraft instead of purchasing 10 A320 aircraft as part of the original deal to purchase 20 that it had negotiated in 2009.

However, Myeni wanted to introduce a third party - an aircraft-leasing company - into the funding and leasing arrangements. SAA eventually met its December deadline from Airbus to conclude the deal for a swap of aircraft under the auspices of newly appointed Finance Minister Pravin Gordhan.

Source: Business Day

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